GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:261
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MICRO FINANCE INSTITUTIONS
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Will the Minister of FINANCE be pleased to state:

(a) whether the Micro-Finance Institutions (MFIs) which directly work with the poorer sections of population charge abnormally high rates of interest;

(b) if so, whether the Reserve Bank of India has made any study in this regard;

(c) if so, the details and findings thereof;

(d) the steps being taken to ensure that the poorpeople get loans at lower rates?

Answer

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) :

(a) There are some reports that a few Micro Finance Institutions {MFIs) operating in Andhra Pradesh are charging high rates of interest.

(b) and (c) Reserve Bank of India has constituted a Coordination Forum under their Convenorship with representatives of Government of Andhra Pradesh NABARD, Banks, State Level Bankers Committee (SLBC) and MFIs as members to discuss and sort out the issues relating to micro finance sector. The Reserve Bank of India, through the College of Agricultural Banking (CAB), Pune, conducted a study on `Costs and Margins of Micro Finance Institutions (MFIs) in select States of the Country. The broad conclusions from the study were as under :-

(i) The costs charged by the MFIs vary widely depending upon the loan products offered, total number of clients, loan size, cost of borrowings,

(ii) The staff costs of MFIs are significantly high`.

(iii) The interest rates charged by MFIs lack transparency.

(iv) The spreads available to MFIs vary considerably depending upon the cost of funding, operational efficiencies, organisational revamping, etc.Another study, conducted by the Bhubaneswar Regional Office of the RBI, revealed that in preponderant number of cases (88%), the interest rate charged by the MFIs was below 30% p.a. However levying of additional charges such as upfront administrative/processing charges, non-interest bearing cash security, compulsory recurring deposits, etc. alongwith flat rate of interest render the real cost of borrowing non-transparent.

(d) More than 22 lakhs SHGs have been, credit linked by March 2006, with a cumulative bank credit of Rs. 11,397.55 crores. To enhance financial inclusion banks have been permitted to use the services of intermediaries in providing financial and banking services through the use of Business Facilitator and Business Correspondent models.Government has decided to provide interest subvention of 20% to public sector banks and regional rural banks and concessional refinance by NABARD to RRBs and Cooperative Banks for ensuring Short Term Production Credit to farmers @ 7% per annum upto a principal of Rs. 3 lakhs during 2006-07.